January 23, 2001

***By Email & Overnight Courier***

Mary L. Cottrell, Secretary

Department of Telecommunications and Energy

Commonwealth of Massachusetts

One South Station

Boston, MA 02110

**Re:** ***Motion by AT&T Requesting the Department to Establish Reduced Charges for Unbundled Network Elements that would Permit Competitive Entry, Before Supporting any Revised Application by Verizon Massachusetts Under 47 U.S.C. §271 (D.T.E. 01-20)***

Dear Secretary Cottrell:

On Tuesday, January 16, 2001, AT&T filed a motion (the "AT&T Motion") requesting the Department to reduce the recurring charges that competitive local exchange carriers pay for unbundled network elements. As the Department well knows, WorldCom, Inc. ("WorldCom") has long been an advocate for lower UNE rates in Massachusetts, as neither the rates approved by the Department in 1996, nor the two more recent Verizon filings with revised switching and transport rates (i.e., the negotiated "Z-Tel rates" filed in July 2000, and the so-called "New York rates" tariffed in October 2000) allow economically viable competition via the UNE-platform, the only entry mode that can produce immediate statewide competition. WorldCom agrees with AT&T that the rates currently in effect in Massachusetts are an insurmountable barrier to sustainable local competition. WorldCom agrees that an expedited reduction of those rates is a necessary prerequisite for the vigorous UNE-based competition envisioned by the Telecommunications Act of 1996. And WorldCom further agrees that unless and until UNE rates are reduced to levels that reflect forward-looking economic costs, and so permit sustainable competition, Verizon ought not obtain authority under 47 U.S.C. §271 for permission to enter the long distance market in Massachusetts, and the Department ought not support the current application. WorldCom therefore fully supports the goals of the AT&T Motion.

WorldCom believes the most efficient and straightforward approach to achieve market entry is to order that specific reduced rates be put in place, and to make clear that those rates will act as a ceiling in pending and future rate cases.

As the Department is aware from its review of filings we have made here and with the FCC, the Department-approved switching (fixed and variable), port, transport and loop rates derived from Verizon's (then NYNEX's) 1996 cost model were grossly inflated. By correcting inputs to Verizon's cost model, WorldCom calculated recurring UNE rates that were substantially lower than the 1996 rates. (See, e.g., WorldCom's *ex parte* filing with the FCC, dated October 2, 2000, a copy of which is annexed hereto as Exhibit 1.) Likewise, after Verizon reduced its switching and transport rates in October 2000 to the so-called "New York rates," WorldCom demonstrated that even after this rate reduction, Verizon's switching and transport rates are still greatly in excess of cost. On the basis of these analyses, WorldCom proposes the following:

**Switching/Port/Transport Rates**

The Department should order the immediate implementation of the switching/port/transport rates currently in effect in Pennsylvania. A spreadsheet comparing the current Massachusetts and Pennsylvania rates for UBL Local Switching, signaling, common transport, tandem switching, port and reciprocal compensation, is annexed hereto as Exhibit 2.

We urge adoption of the Pennsylvania switching, port and transport rates because, while not TELRIC, they are in the direction of TELRIC and they are rates in effect in Verizon territory that do not suffer from the same defects that mar the so-called New York and earlier Massachusetts rates. Indeed, as the Department knows, the so-called New York rates currently in effect in Massachusetts are the result of a process that included a 1996 cost study that the New York Public Service Commission recognizes was based on a Verizon misrepresentation -- understating the discount it receives on the purchase of new switches. Moreover, the New York PSC has taken action to address Verizon's rates; there is an open TELRIC docket in New York to fix Verizon's flawed rates, and the current rates will be subject to true-up at the conclusion of that case. The New York rates were also based in part on an April 1997 estimate of the average total switch cost on a per line basis, which used New York Telephone depreciation studies covering thirty-three switch purchases in 1993 and 1994. The result of that analysis was a determination in 1997 that the average total cost per line was $193. Since then, however, the FCC has analyzed more recent and more comprehensive data - a total of over one thousand switch purchases from 1989 to 1996 - resulting in a determination that the average total cost per line in 1999 was only $117.

The Pennsylvania rates, in contrast, were established by the Pennsylvania Public Utility Commission in September 1999. While those rates are the subject of varying appeals, including one by WorldCom, as compared with the New York and Pennsylvania rates they are closer to TELRIC and, with the implementation of revised loop rates as suggested below, may be sufficient to permit competitive entry in Massachusetts while the permanent TELRIC proceeding is being resolved.

**Loop Rates**

The Department should order the immediate reduction in Verizon's recurring loop rates as follows:

Metro from $7.54 to $6.17

Urban from $14.11 to $9.81

Suburban from $16.12 to $11.42

Rural from $20.04 to $16.63.

These reductions would bring the state average loop rate down from $15.66 to $11.24.

Unlike switching rates, Verizon's loop rates in Massachusetts have never been revised since they were initially set in 1996. But the original NYNEX 1996 loop cost study, which was adopted wholesale by the Department, relied on inputs that served to drive loop rates unreasonably high. In particular, WorldCom has identified unreasonable inputs affecting: utilization factors; pole inputs; cost of NIDs; cost of cable, and; cost of capital. As described more fully in a WorldCom *ex parte* filing with the FCC dated November

20, 2000, a copy of which is annexed hereto as Exhibit 3, when the identified inputs were replaced with more reasonable figures derived from the FCC's Synthesis Model, loop rates dropped dramatically.[(1)]

And importantly, the problems WorldCom has identified with the loop rates are based on 1996 data, which even the Department has recognized in another context as "getting stale" (see Order, D.T.E. 98-57 (Phase III), September 29, 2000, at 119-20).

The rates we propose herein are far closer to forward-looking economic cost than the rates in effect in Massachusetts today, and are sufficient to permit widespread local competition to begin in Massachusetts now. Of equal if not greater significance in treating all the proposed rates as ceiling rates, each of the cost studies mentioned herein, i.e., those of Massachusetts, New York, and Pennsylvania, were generated *before* NYNEX merged with Bell Atlantic, and *before* Bell Atlantic merged with GTE. Given the Verizon-promised merger-related efficiencies that should be expected in any new cost model Verizon submits (not to mention efficiencies stemming from recent technological advances), it is entirely reasonable that these rates we propose be treated as a ceiling in pending and future rate proceedings.

To be clear, WorldCom is not objecting to AT&T's proposal for a negotiated process. Indeed, were the Department to decline to order a rate reduction it is WorldCom's hope that the Department would act on AT&T's proposal and commence negotiations, which should take no more than 3-4 weeks, immediately. WorldCom would prefer to be in a market with ordered or negotiated rates that work, rather than be excluded from a market while TELRIC rates are being litigated.

WorldCom is now providing local service via the UNE platform in five states. We want to offer the Commonwealth's residents the same benefits and choices that consumers in these other states enjoy today. We respectfully submit that the Department should promptly take the steps necessary for that to happen.

Very truly yours,

Christopher J. McDonald

cc: James Connelly, Esq., Chairman

W. Robert Keating, Commissioner

Dierdre K. Manning, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Paul B. Vasington, Commissioner

Michael Isenberg, Director, Telecommunications Division

D.T.E. 99-271 Service List (*by email & U.S. Mail; enclosures by email only*)

1. In connection with our analysis of Verizon's 1996 loop rates, WorldCom repeatedly requested from Verizon a spreadsheet identified in the NYNEX cost study as LINKCOST.XLS. After being pressed by the FCC to provide that spreadsheet, Verizon on November 9, 2000, forwarded an electronic version of what it referred to as the "underlying spreadsheet" (identified on the disk we received as "November.xls" and which we presume to be identical to the LINKCOST.XLS spreadsheet identified in the NYNEX cost study). Because the "underlying spreadsheet" was provided to us pursuant to the confidentiality restrictions governing Verizon's federal application for 271 authority, we are precluded from providing to the Department the spreadsheet itself or the specific calculations based on it that WorldCom used to arrive at the proposed loop rates. However, given that the Department presumably has access to the formulas in LINKCOST.XLS, we would be happy to meet with the Department and rerun our calculations.